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The New York Times

Technology

Virtual Currency Offerings May Hit a New Peak with Telegram Coin Sale

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1458 words

4 March 2018

17:23

[NYTimes.com Feed](#)

NYTFEED

English

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SAN FRANCISCO — It took [Facebook](#) seven years to raise \$1 billion from investors. Uber did it in five.

The messaging company Telegram has been around since 2013, but never tried to raise significant money until late last year. Now, thanks to an [initial coin offering](#) , or I.C.O. [<https://www.nytimes.com/2017/10/27/technology/what-is-an-initial-coin-offering.html>], Telegram is on track to pull in a billion dollars in just four months — long before the product the company is raising money for is even built.

When programmers or entrepreneurs launch an I.C.O., what they are really doing is selling their own virtual currencies in order to raise money for software they say they are building. In return for real money, investors receive digital tokens, similar to Bitcoin.

Regulators worry this novel fund-raising method is allowing people to flout the rules that are supposed to protect investors. Financial authorities around the world have been promising to crack down on coin offerings, which [rose out of nowhere last year](#) [<https://www.nytimes.com/2017/06/23/business/dealbook/coin-digital-currency.html>] to become a popular way for start-ups to raise tens of millions of dollars, sometimes in minutes.

In recent months, the [Securities and Exchange Commission](#) has been [sending out subpoenas](#) [<https://www.nytimes.com/2018/02/28/technology/initial-coin-offerings-sec.html>], asking for information about coin offerings that may have violated the law — although how existing laws may apply remains unclear. Nonetheless, companies like Telegram are still proceeding with their offerings and hoping they can stay out of trouble.

Telegram's supercharged fund-raising has become the most visible and perhaps most lucrative example of an I.C.O. The company has taken in \$850 million over the past two months from some of the biggest venture capital firms in Silicon Valley, and it is now aiming to raise another \$850 million over the next month or so. A third \$850 million round is in the works after that, according to documents associated with the offering .

Telegram already runs a popular messaging service. It plans to use the new money to create both an online currency for ordinary people — outside the control of governments — and a new kind of global computing network, combining the attributes of existing virtual currencies like Bitcoin and Ethereum.

The project is being led by one of the most vaunted but enigmatic figures in the tech world, Pavel Durov, who built the biggest social network in Russia, VKontakte, before [thumping his nose at Vladimir V. Putin and fleeing the country](#) [<https://www.nytimes.com/2014/12/03/technology/once-celebrated-in-russia-programmer-pavel-durov-chooses-exile.html>]. He now hops between bases in Dubai and around Europe.

Despite Mr. Durov's credentials, the tech world is divided on the wisdom of putting money into his fund-raising campaign.

Some of Silicon Valley's most prominent venture firms have signed up to invest in the project, including Benchmark, Sequoia and [Kleiner Perkins](#), according to two people briefed on the private deal who were not authorized to speak about it publicly.

But the venture capitalists who have invested the most in the virtual currency space, like [Union Square Ventures](#), [Andreessen Horowitz](#), Greylock and Polychain Capital, have stayed away.

“It’s a pitch that sounds good to V.C.s that haven’t participated but makes no sense to people that have been in the space,” said Nick Tomaino, the founder of a virtual currency investment fund, 1confirmation, that didn’t invest in Telegram .

The most obvious reason to be skeptical of the project is that there is not even a prototype — just a 132-page paper promising what the system will look like one day. The Telegram team is promising to release the software late this year or next year.

What’s more, Telegram is promising to do more than any other virtual currency and to fix the intractable problems that have plagued virtual currencies like Bitcoin, such as overcoming the network’s difficulty handling all the transactions that have poured onto the network as it has become more popular.

An analyst at one virtual currency-focused hedge fund, Pantera Capital, wrote a scathing essay noting that the Telegram team has given no evidence that they will be able to solve the problems that have dogged everyone else.

“I cannot, in 132 pages, gain the slightest intuition as to how to go about proving that the hard problems it needs to solve will be solved,” the analyst, Charles Noyes, [wrote about the Telegram project on Medium \[https://tokeneconomy.co/a-ton-of-crap-b1e264c36802\]](https://tokeneconomy.co/a-ton-of-crap-b1e264c36802).

Telegram representatives did not respond to requests for comment.

Believers in the Telegram project have said that the company has a team of developers that have already proved themselves by building two incredibly popular tech products, VKontakte and Telegram .

Mr. Durov, a self-described libertarian, founded VKontakte in 2006, but [gave up his role and his ownership stake in 2013 \[https://www.nytimes.com/2014/12/03/technology/once-celebrated-in-russia-programmer-pavel-durov-chooses-exile.html\]](https://www.nytimes.com/2014/12/03/technology/once-celebrated-in-russia-programmer-pavel-durov-chooses-exile.html) after Mr. Putin’s allies took control of the company.

Since then, Mr. Durov and his brother, who is said to be the technical genius behind the projects, have built Telegram into a messaging giant with nearly 200 million users. (When [Facebook](#) raised a billion dollars, it already had half a billion users.)

The Telegram app has been popular in authoritarian countries because it promises that all messages are encrypted and protected from government snooping. Its pro-privacy stance has made it popular with many in the virtual currency community.

The virtual currency network that Telegram is building, known as the Telegram Open Network, or TON , would allow users of the Telegram app to send each other payments when they are not in the same country. It would be a Bitcoin equivalent to the popular payment systems that messaging programs like [WeChat](#) have built.

“ TON can become a VISA/Mastercard alternative for the new decentralized economy,” said a TON primer that was sent to investors. “We believe that a whole new economy saturated with goods and services sold for cryptocurrency will be born.”

The Telegram Open Network will use the idea of the blockchain, first introduced by Bitcoin, to maintain all the records of Telegram ’s currency, known as the Gram , on computers around the world, without any central authority. But Telegram is promising that its blockchains will do much more than Bitcoin: serve as the basis for a global super computer, somewhat like the popular Ethereum network.

The Bitcoin and Ethereum networks have both [struggled to keep up with transactions \[https://www.nytimes.com/2017/12/06/technology/bitcoin-payments-gold.html\]](https://www.nytimes.com/2017/12/06/technology/bitcoin-payments-gold.html), but Telegram said it will overcome this by using multiple blockchains that will allow it to process millions of transactions a second. The Bitcoin network limit is currently around five transactions a second.

The Telegram documents say that 5 billion Grams will initially be released to users. The investors who put the first \$850 million into the project paid 37 cents for each token, according to offering documents.

The next round of investors, expected to come together over the next month, will pay about three and half times that for each Gram . If the current round raises another \$850 million, Telegram said in documents that it may hold yet another round, to raise \$850 million more.

The price that Telegram is charging in the current fund-raising round — \$1.33 a Gram — assumes the entire currency will grow to be worth at least \$6.6 billion. There are already eight virtual currencies worth that much, and all the Bitcoin in the world were worth around \$185 billion on Sunday. Given Telegram 's experience, many investors think it won't be hard to achieve that long term value.

Telegram 's team has also been careful to stay on the right side of the law, only offering their token to accredited investors, and working with the established Wall Street law firm [Skadden, Arps, Slate, Meagher & Flom](#).

Telegram initially said in its offering documents that it would do a public sale of Grams, to smaller investors, but it backed away from that after American regulators [spoke in congressional hearings in February](#) [<https://www.sec.gov/news/public-statement/statement-clayton-2017-12-11>] about their concerns over I.C.O.s, according to the people briefed on the deal.

Despite those precautions, many virtual currency investors said the Telegram offering was too risky.

"This is an order of magnitude larger than any of the most hyped I.C.O.s we've seen," said Joe DiPasquale, the founder of BitBull Capital, a hedge fund. "As an investor who looks at a lot of projects in this space, that for me is a concern."

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* [Easiest Path to Riches on the Web? An Initial Coin Offering](#)

[<https://www.nytimes.com/2017/06/23/business/dealbook/coin-digital-currency.html>]

* [Once Celebrated in Russia, the Programmer Pavel Durov Chooses Exile](#)

[<https://www.nytimes.com/2014/12/03/technology/once-celebrated-in-russia-programmer-pavel-durov-chooses-exile.html>]

* [Russia and Venezuela's Plan to Sidestep Sanctions: Virtual Currencies](#)

[<https://www.nytimes.com/2018/01/03/technology/russia-venezuela-virtual-currencies.html>]

Pavel Durov is one of the most vaunted but enigmatic figures in the tech world, but the tech world is split over Telegram's fund-raising campaign. | Jim Wilson/The New York Times

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